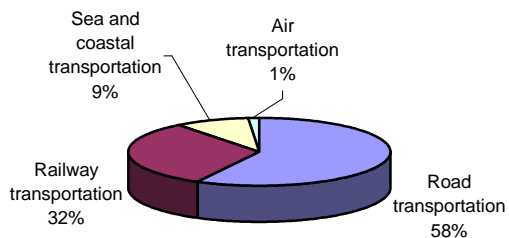
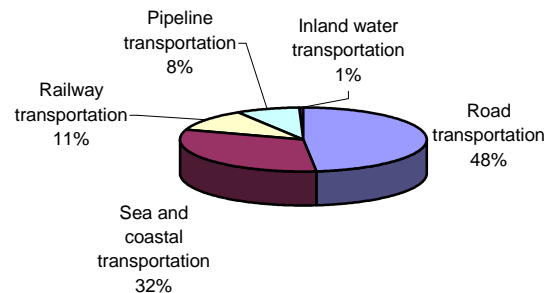


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GENERAL INFORMATION AND TRAFFIC STRUCTURE

Ever since Croatia's independence, tourism industry recovery and development is the key factor influencing the civil aviation traffic in Croatia. Linked to the tourism development are also numerous infrastructure projects for other types of traffic, like the Port of Rijeka reconstruction (Rijeka Gateway project), Port of Dubrovnik, Port of Zadar and highway construction in three major directions: European Corridor Vb (Gorican-Zagreb-Rijeka), A1 highway Zagreb-Split (and in the future to Dubrovnik) and Istrian "Y" motorway. To respond to the developing road and railway infrastructure and increased ease of travel within Croatia, air carriers had to reduce prices and increase marketing efforts.

Croatia has 7 major international airports, of which three (Zagreb, Dubrovnik and Split) account for approximately 90 percent of the total passenger traffic in Croatia. Below is the structure of passenger traffic in Croatia for 2003:

Passenger transportation in Croatia**Cargo transportation in Croatia**

During 2003, Croatian air carriers transported 1.58 million passengers.

AIRPORTS

Croatian airports are 55 percent owned by the government, with the remaining 45 percent split between different levels of local authority. Notwithstanding the fact that Croatian airports currently have sufficient infrastructure to handle existing traffic, Zagreb and Dubrovnik airports have ambitious expansion plans.

Total passenger traffic in Croatian airports for 2004 will reach approximately 3.5 million, which is still well below the 1987 level of 5.45 million passengers. However, this is the highest aggregate passenger traffic in the Croatian airports since Croatia's independence.

Zagreb Airport

[Zagreb Airport](#) handled 1.4 million passengers in 2004, approximately 7 percent more than in 2003. However, as more and more charters and regular flights serve coastal airports directly, the traffic increase at the [Zagreb Airport](#) becomes less related to the coastal airports. This is reflected in decreasing passenger traffic through [Zagreb Airport](#) expressed as a percentage of total passenger traffic in Croatia.

The construction of the new [Zagreb Airport](#) passenger terminal should replace the Rijeka Gateway project as the single largest traffic infrastructure project in Croatia. According to the press, the construction of the new passenger terminal will cost an estimated at EUR 120 million, a figure that includes expenses for land acquisition. Croatian Government is considering privatization as the best option since it doesn't have the financial resources for such a large project. The Government hopes to issue the tender to either re-capitalize Zagreb Airport or award a BOT concession for the new terminal building by the end of 2005, as it needs to settle land ownership issues in the meanwhile.

Zagreb Airport is actively marketing itself as a regional hub for long-haul international flights and is looking at opportunities with major air carriers for establishing direct flights between Zagreb and distant international destinations. Recently it announced an agreement with a U.S. carrier [Trans Meridian Airlines](#) for the first direct flight between the USA and Croatia, but this charter service will be postponed until next year. Related to this, the Transportation Security Administration postponed its evaluation of [Zagreb Airport](#).

Dubrovnik Airport

In 2004, the passenger traffic at the [Dubrovnik Airport](#) (880,000 passengers, up 22 percent compared to 2003) was still only half of its pre-war traffic. Regardless of regular service between Zagreb and Dubrovnik operated by Croatia Airlines, majority of passengers that traveled through [Dubrovnik Airport](#) in 2004 were from Germany, with Croatia at the 2nd and United Kingdom at the 3rd place on the list of originating countries. As the management forecasts a double-digit passenger traffic increases in the following years, and as some 40 percent of adjacent hotel capacities will be reconstructed during 2005, [Dubrovnik Airport](#) started expanding its facilities already in fall 2004. Costs of construction works are estimated at EUR 16 million and are expected to take 18 months to complete. This project will expand the parking area for aircrafts and make adjustments for handling low-cost carriers and general aviation aircrafts. [Dubrovnik Airport](#) will begin expanding the baggage claim area as well and subsequently start reconstructing the check-in area in the main building.

Already back in 2002, several investors expressed interest in ownership and concessions in [Dubrovnik Airport](#). [Copenhagen Airports](#) offered to re-capitalize the airport and obtain a 20 percent ownership stake, while Hochtling, Suisse Port and Wiggins were interested in concessions for different airport operations.

Split Airport

[Split Airport](#) handled 788,000 passengers in 2004, a 13 percent increase over 2003. With the recovery of tourism and larger number of charters and direct flights between Split and European destinations, this trend is expected to continue in the following years. [Split Airport](#) also has a master plan for the development of the airport, but there are no plans for immediate reconstruction of the airport.

Pula Airport

[Pula Airport](#) was very active in attracting charter flights in and out of the tourist season and has benefited from this strategy through increased international recognition. In 2003, it handled 140,000 passengers and this figure is expected to increase to approximately 165,000 passengers in 2004. [Pula Airport](#) recorded its peak traffic in 1987 with 670,000 passengers. The airport serves as a base for smaller carriers like Air Adriatic and Liberia Air.

Easyjet, another low-cost carrier that is preparing to enter the Croatian market, is negotiating with [Pula Airport](#) to establish its servicing base there.

Zadar Airport

[Zadar Airport](#) handled 70,000 passengers in 2003. As is the case with other coastal airports, traffic at [Zadar Airport](#) reflects the tourism activity in the region. [Zadar Airport](#) also serves as the base for the Croatian military pilot school and Lufthansa pilot training school (Intercockpit GmbH).

Rijeka Airport

[Rijeka Airport](#) registered 46,587 passengers in 2003. Over the years, it suffered from lacking regular local transportation service and uncertain plans for the future. Recently, with the return of tourists from United Kingdom and France, the local government is considering per-seat subsidies and more aggressive efforts to attract charter flights. Rijeka Airport hopes to receive some of the low-cost carrier traffic after the implementation of the Open Skies agreement.

Hapag Lloyd Express, a low-cost carrier, recently started servicing [Rijeka Airport](#) with regular flights from Koln and Hannover. From October 2004 to March 2005, Hapag Lloyd Express sold 20,000 tickets for the mentioned flights.

**Osijek Airport
Brač Airport**

[Osijek Airport](#) and [Brač airport](#) record insignificant passenger traffic (3,500 and 27,350 passengers in 2003, respectively). [Osijek Airport](#) lost its entire traffic during the war period, when it was heavily damaged and out of function. [Brač airport](#), on the other hand, has a local significance as it connects the island of Brač with Croatia's mainland and some European originating countries. In 2005, it will probably start handling flights from Prague operated by a low-cost carrier Discovery.

REGULATORY ENVIRONMENT

The [Croatian Civil Aviation Department](#) with the Ministry of Sea, Tourism, Transport and Development performs administrative tasks related to the air traffic in Croatia, proposes statutes and guidelines for civil aviation activities and actively participates in the development of civil aviation. Since March 16 2004, Croatia is a full member of the [JAA](#) (Joint Aviation Authorities). Croatia is also a member of [ICAO](#), [ECAC](#) and [Eurocontrol](#).

[Croatian Civil Aviation Department](#) consists of the following offices:

- department of legal and international affairs for civil aviation

- department of air traffic and standards
- airports department and air traffic safety
- aircraft registry
- personnel licencing department

AIR CARRIERS

Croatia Airlines

[Croatia Airlines](#) (CA) is the Croatian national air carrier, with 95 percent of the shares owned by the Croatian Government. It became a regional member of Star Alliance in mid 2004. According to the press, [CA](#) has an average seat utilization of 62.2 percent and carried 1,47 million passengers in 2003 and 4,653 tons of cargo. [CA](#) employs just under 1,100 people and has generated revenues of EUR 185 million in 2003, with a profit of approximately EUR 2 million. In July 2004 [CA](#) carried 188,000 passengers, and it expects to record 1.56 million passengers in 2004. In July 2004, [CA](#) registered 10-millionth passenger in its history.

[CA](#) fleet consists of 3 Airbus 320, 4 Airbus 319, 3 ATR 42 and 1 BAE 146 Jumbolino aircrafts.

Already in 2002, [CA](#)'s technical department installed reinforced cabin doors on 14 Lufthansa's Airbus 320 airplanes. It continued its servicing activities by modifying pilot cabin doors on 10 aircrafts for Italy's Volare Airlines. In April 2003 [CA](#) received the JAR OPS 1 AOC certificate, and in December 2003 it was awarded the ISO 9001:2000 certificate.

Air Adriatic

[Air Adriatic](#), an air carrier based in Pula, operates three MD82 aircrafts and performs primarily charter flights, with some regular flights during the tourist season. In 2003, Air Adriatic recorded revenues of EUR 10.5 million and employed 56 people.

In 2003, [Air Adriatic](#) carried 112,080 passengers, and it expects this figure to reach 235,000 in 2004. The management announced they plan to lease additional two MD82 aircrafts during the next summer season.

Trade Air, Laus Air

[Trade Air](#) was registered in 1994 and today it operates 3 L410 UVP-E aircrafts, performing

charter and VIP flights as well as cargo transportation. It employed 14 people and recorded revenues of EUR 2.8 million in 2003.

[Laus Air](#) operates one L410 UVP-E aircraft and performs mostly cargo transportation for the local UPS office. With 8 employees, in 2003 it recorded revenues of EUR 900,000.

Dubrovnik Airline

Established in 2004 by [Atlantska plovidba Inc.](#) shipping company and [Dubrovnik Airport](#) with an equity of EUR 2m, Dubrovnik Airline is preparing to operate charter flights servicing Dubrovnik and has already purchased one MD83 aircraft (167-seater). By this summer, Dubrovnik Airline should purchase or “dry-lease” another MD82 aircraft. However, [Dubrovnik Airport](#) might be forced to pull out of the project, as the Ministry of Sea, Transport, Tourism and Development objected to [Dubrovnik Airport](#)’s involvement. The City of Dubrovnik already expressed its willingness to replace [Dubrovnik Airport](#) as an investor. Mr. Zeno Singer, CEO of Dubrovnik Airline, is a former member of the Management Board of [Air Adriatic](#).

AIR TRAFFIC CONTROL

[Croatian Air Navigation Services](#), Inc. (CANS), is a state-owned entity incorporated in 2000 (prior to that date it operated as a part of the Ministry of Transportation). In July 2003 it received a loan from the [European Bank for Reconstruction and Development](#) to replace the expired system it operated until then, enable Croatia to cope with the expected increase in air traffic over its territory and finalize the integration of the Croatian air navigation system within the pan-European framework of Eurocontrol.

Total project cost is estimated at EUR 54 million, of which EBRD financed EUR 25 million. The EUR 20 million contract for supply of the new operations center was awarded to France’s [Thales](#) in 2003. Before the war, Croatia's revenue for providing air traffic control services was about \$30 million annually, while in 2003 it totaled EUR 46 million (\$57 million). [CANS](#) employs approximately 720 employees.

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